

STATE OF TENNESSEE,)
)
Plaintiff,)
)
v.) No. _____
)
HOUSEHOLD INTERNATIONAL, INC.)
a Delaware corporation,)
)
Respondent.)

Plaintiff, State of Tennessee, through Paul G. Summers, Attorney General and Reporter for the State of Tennessee, at the request of David A. McCollum, Director of the Division of Consumer Affairs of the Tennessee Department of Commerce and Insurance, and Fred R. Lawson, Commissioner of the Tennessee Department of Financial Institutions, (hereinafter “the State”), brings this action pursuant to Tenn. Code Ann. § 47-18-108 of the Tennessee Consumer Protection Act of 1977 and Tenn. Code Ann. § 45-1-107. **Plaintiff seeks, among other things: a permanent injunction, an order compelling Defendant to pay restitution to consumers, attorneys’ fees and costs, and an order reforming contracts between Defendant and Tennessee consumers.**

1. **The authority of the Attorney General and the Division of Consumer Affairs to bring this action is derived from the**Tennessee Consumer Protection Act of 1977, Tenn. Code Ann. §§ 47-18-101, *et seq.*, **and the authority of the Department of Financial Institutions is derived from Tenn. Code Ann. §§ 45-1-101, *et seq.*, and 45-5-101, *et seq.***

2. Defendant Household International, Inc., a Delaware corporation, and/or its direct and indirect subsidiaries, affiliates, officers, directors, employees, agents, related entities, successors, and assigns (collectively, “Household”), at all times mentioned herein, have transacted business within the State of Tennessee and in the County of Davidson. The violations of law alleged herein were committed throughout the State of Tennessee and in the County of Davidson. Venue is proper pursuant to Tenn. Code Ann. §§

GENERAL ALLEGATIONS

3. In the ordinary course of business, direct or indirect subsidiaries of Household Finance Corporation (“HFC”), a subsidiary of Defendant Household International, Inc., have negotiated and entered into real-estate secured loans with consumers in the State of **Tennessee. These real estate secured loans were made from or at Household's retail lending branches during between the period January 1, 1999 through September 30, 2002 (the "Covered Transactions")**.

4. State attorneys general and state financial regulators in Tennessee and in other states have received and investigated complaints and conducted examinations concerning the Covered Transactions. Those complaints and investigations related to Household's conduct with respect to the following practices (collectively, “the Lending Practices”):

A. Two real-estate secured loans made at or near the same date to the same consumer (“split loans”, or “loan-splitting”): Plaintiff alleges that such loans were made through unfair and deceptive means, including, but not limited to, misrepresentations or omissions concerning the number of loans, misrepresentation of the benefits of refinancing and debt consolidation with the high-cost split loans; use of the second loan as a result of the high amount of points and fees financed as part of the primary loan; and as a means to make high loan-to-value mortgage loans which had the effect of preventing borrowers from seeking to refinance with lower rate lenders.

B. Loan points and origination fees: Plaintiff alleges that Defendant failed to provide timely and adequate information to borrowers concerning the amount and purpose of the putative “discount” or “buy-down” points and fees imposed on their loans, including, but not limited to, failing to provide meaningful early disclosures as required by law, 24 C.F.R. 3500.7.

C. Misrepresentation of interest rates: Plaintiff alleges that Defendant misrepresented the interest rates to be charged on loans through such means as using a “low-ball” rate purporting to be an “effective” rate or an equally deceptive term. Such misrepresentations and omissions occurred in the context of Defendant's attempting to disguise a high-rate mortgage as a low-rate mortgage through use of (for payment of an additional fee) a bi-weekly payment plan. Defendant failed to inform consumers that accelerated principal reduction occurred through making extra payments, instead misleading consumers into thinking the savings were attributable to lower interest charges than the loans provided for. Additionally,

misleading comparisons were made between rates on existing debts which applicants were considering refinancing or consolidating, and the rate(s) to be charged on Defendant's proposed loan or loans.

D. Monthly payment amounts: Plaintiff alleges that Defendant failed to inform consumers that higher payments, rather than lower rates, were the feature of the bi-weekly payment program which would result in overall savings in finance charges. Further, in making sales presentations with respect to refinancing and debt consolidation applications, Defendant made misleading comparisons of monthly payment obligations between existing debts and the proposed new loan or loans to be made by Defendant.

E. Single premium credit and other insurance product: Plaintiff alleges that Defendant engaged in a pattern of "insurance packing," including, but not limited to, misleading consumers as to the voluntary nature of the insurance, the price of the insurance, and the benefits and/or term of the insurance.

F. Prepayment penalties: Plaintiff alleges that Defendant engaged in a practice of misleading consumers about the presence of prepayment penalties on their loans and imposed prepayment penalties in violation of state law.

G. Unsolicited loans offered through an unsolicited negotiable check that the consumer can accept by endorsing and depositing or transferring the check ("live checks"): Plaintiff alleges that Defendant used "live checks" as a "bait" to make high-cost mortgage loans; used misleading representations; and failed to adequately inform consumers that the unsolicited check was a loan.

H. Practices with regard to home equity lines of credit: Plaintiff alleges that Defendant extended what was in substance closed-end credit disguised as open-end credit with the intent to avoid making meaningful disclosures concerning the payment terms, such as the existence of large balloon payments. Plaintiff further alleges that Defendant extended what was in substance closed-end credit with APRs in excess of 10% over the US treasury rate for comparable maturities, which Defendant disguised as open-end credit to evade the requirements of the Home Ownership and Equity Protection Act, 15 U.S.C. § 1639.

I. Loan billing practices relating to simple interest calculations: Plaintiff alleges that Defendant's practices by which payments were credited to accounts on the basis of the number of days between payments frequently resulted in situations in which scheduled payments were insufficient to pay

accrued interest, creating a shortfall in interest (“interest short”), which resulted in excess finance charge costs for borrowers. Such shortfalls could occur even when payments were not late. Defendant further made representations concerning the opportunity to “skip a payment” without informing consumers that doing so would result in “interest short” situations. Defendant failed to provide borrowers with material information necessary to avoid such extra charges.

J. Balloon payments: Plaintiff alleges that Defendant extended credit to borrowers on terms that would eventually require balloon payments, without disclosing to borrowers the existence or amount of the balloon payments.

K. Payoff information: Plaintiff alleges that Defendant failed to provide timely payoff information, which impeded borrowers' efforts to seek refinancing elsewhere.

L. Non English language documentation: Plaintiff alleges that Defendant engaged in unfair and deceptive practices by failing to provide meaningful descriptions of loan terms to non-English-speaking borrowers.

M. Net tangible benefit in loan refinancing: Plaintiff alleges that Defendant engaged in the practice of refinancing its own or other loans, thereby imposing additional fees and costs, where the new loan provided no net tangible benefit to the consumer.

COUNT I

5. Plaintiff realleges and incorporates by reference the allegations of Paragraphs 1 to 4 of this Complaint.

6. Defendant, through its direct and indirect subsidiaries, engages in trade or commerce within the meaning of Tenn. Code Ann. §§ 47-8-103(11) and -104, by making loans to consumers in the “sub-prime” mortgage loan market. Defendant advertises, offers, solicits sales of, and sells real estate secured loans and related goods and services to Tennessee consumers. These acts and practices, more fully described in Paragraph 4 of this Complaint, constitute unfair and deceptive acts or practices affecting the conduct of trade or commerce in the State of Tennessee in violation of Tenn. Code Ann. § 47-18-104(a), and, further, such acts and practices constitute violations of Tenn. Code Ann. §§ 47-18-104(b)(5), (b)(7), (b)(9), (b)(12), (b)(13), and (b)(27).

7. Defendant, through its direct and indirect subsidiaries, engaged in the business of making

loans to Tennessee consumers that were secured by those consumers' homes. Defendant used misleading, unfair and deceptive promotions, marketing and sales techniques to induce primarily low and moderate-income homeowners to refinance their mortgages and consolidate their debts using Household's real-estate secured loan products.

8. In the course of its dealings with consumers and in furtherance of its own direct pecuniary and business gains, Defendant committed deceptive and unfair acts, or made material misrepresentations or omissions in violation of Tenn. Code Ann. § 47-18-104.

COUNT II

9. Plaintiff realleges and incorporates by reference the allegations of Paragraphs 1 to 8 of this Complaint.

10. Defendant, through the conduct of its direct and indirect subsidiaries, has failed to meet the continuing requirements for registration as an industrial loan and thrift company, within the meaning of Tenn. Code Ann. § 45-5-201(a), to make loans to consumers in the "sub-prime" mortgage loan market. Defendant advertises, offers, solicits sales of, and sells real estate secured loans and related goods and services to Tennessee consumers. These acts and practices, more fully described in Paragraph 4 of this Complaint, do not demonstrate such experience, character and general fitness as to command the confidence of the public and warrant the belief that the business to be operated thereunder will be operated lawfully and fairly, in violation of Tenn. Code Ann. § 45-5-201(a)(1).

11. Defendant, through its direct and indirect subsidiaries, by selling single premium credit and other insurance products, more fully described in Paragraph 4.E., required or allowed to be accepted an amount and type of insurance to consumers which does not bear a reasonable relation to the existing hazard and risk of loss, in violation of Tenn. Code Ann. § 45-5-305(a)(3).

12. Defendant, through its direct and indirect subsidiaries, by imposing prepayment penalties on consumers' loans, more fully described in Paragraph 4.E., charged unauthorized loan fees and charges, in violation of Tenn. Code Ann. § 45-5-403(a).

13. Defendant, through its direct and indirect subsidiaries, through loan billing practices relating to simple interest calculations, more fully described in Paragraph 4.I., allowed unauthorized deferral charges, in violation Tenn. Code Ann. § 45-5-402(b)(3).

14. Defendant, through its direct and indirect subsidiaries, by use of “live checks” and other direct marketing, more fully described in Paragraph 4.G., published or distributed or caused to be published or distributed false or misleading advertising, in violation of Tenn. Code Ann. § 45-5-302(10).

15. The Attorney General and the Commissioner of the Department of Financial Institutions entered into negotiations with Defendant and the parties have agreed to, and the Division of Consumer Affairs has approved, the Agreed Final Judgment filed contemporaneously herewith.

16. The Division, the Attorney General, the Department of Financial Institutions and the Defendant have jointly agreed to the Agreed Final Judgment and join in its filing.

WHEREFORE, Plaintiff prays for judgment as follows:

A. Pursuant to Tenn. Code Ann. §§ 45-1-107(a)(6) and 47-18-108(a)(4), that Defendant, its direct and indirect subsidiaries, affiliates, officers, directors, employees, agents, related entities, successors, and assigns, and any and all other persons who act under, by, through, **or on behalf of Defendant be permanently restrained and enjoined from the following:**

(1) Making or disseminating any misleading, unfair or deceptive representations in violation of Tenn. Code Ann. § 47-18-104, relating to the marketing or sale of loans to consumers.

(2) Doing any of the wrongful acts referenced in this Complaint or any other act in violation of Tenn. Code Ann. §§ 45-5, -201(a)(1), -302(10), -305(a)(3), -402(b)(3), and -403(a), relating to the business of making retail residential loans to consumers.

B. That Defendant make restitution to consumers.

C. That Plaintiff be awarded its attorneys’ fees and costs and other appropriate relief available under state law.

I. That this Complaint be filed without cost bond pursuant to the provisions of Tenn. Code Ann. §§ 20-13-101 and 47-18-116.

E. That the Assurance of Voluntary Compliance be approved and filed in accordance with the provisions of the Tennessee Consumer Protection Act.

F. That Plaintiff be awarded such other and further relief as the Court deems just and

proper and is equitable under the circumstances.

Respectfully submitted,

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